

The US election – A house divided

“Always bear in mind that your own resolution to succeed is more important than any other one thing”. - Abraham Lincoln, 1858

What is it about democracy these days that voting in an election seems to be the start of a debate rather than the conclusion? Perhaps that is a subject for another time but, for now, the fact is that Joe Biden has won the US election and Donald Trump has not, so far, conceded defeat.

The legal challenges and entertaining press conference by Trump’s attorney, Rudi Giuliani, make for great headlines but the prospect of three months of legal challenges is unappealing and, for many, tarnishes the very office of the US Presidency. The official Presidential inauguration on 20th January 2021 seems a long way off.

But whatever challenges emerge to Joe Biden’s legitimacy as President-Elect, the market had already voted with its feet before polling stations closed. The FTSE 100 had recorded its fifth straight daily gain by close of business last Friday and global markets reacted in similar fashion.

Of course, what markets really hate is uncertainty. If they could have a slogan, it might be something like “Make America boring again” – a sense of a return to some kind of normality, even in the midst of Covid-19, would be welcomed. This explains why the market reaction is not just about the winning candidate.

Over the last 100 years or so, under Presidencies going back to Hoover and Roosevelt (Democrats), it has not been unusual for the power to be split in Washington, whoever the President happens to be. Indeed, statistically, the best returns over this period have been under a Democrat President but with a Republican House and Democrat Senate. Even the most recent situation under Trump, a Republican President, Democrat House and Republican Senate has seen stock markets making double-digit returns.

This may have something to do with a curbing of powers that might otherwise have been used to bring in radical policies. If markets like certainty, there is something quite comforting in having the certain knowledge that the President’s hands are tied against excessive change. This has been the case under Bush Snr., Clinton, Bush Jnr., Obama and Trump.

The Joe Biden Presidency will start with a Democrat House and Republican Senate. This is unusual – you would have to go back to the start of President Cleveland in 1886 to see this combination. However, this set-up is the mirror image of the Trump Presidency and, therefore, as far as markets are concerned, contains the requisite checks and balances for long term investment planning. For the economy, one might think of it as a safe pair of hands or reliably inactive, depending on your political point of view.

Back in media world, Trump’s departure, or lack of it, may be unsettling and lacking the statesmanlike commensurate with the world’s most powerful post. Trump may be around for a while yet – he was a radicalising figure before taking office and is likely to be headlining for years to come as he faces multiple prosecutions.

The USA and the rest of the world are facing severe challenges with Covid-19 and some of the progressive ideals being proposed will face many harsh realities when the celebrations are over. The US economy is in tatters. Unemployment has the potential to destabilise and national debt is beyond the worst case scenarios foreseen only a year ago. But, for now, with the uncertainty of the pre-election run up now behind us, the stock markets have greeted the news positively, further boosting the recovery from the April lows.